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SUMITOMO SEIKA CHEMICALS CO.,LTD.

URUOI
Worldwide!

Corporate Business Plan for 2020 to 2022

Sumitomo Seika Chemicals Co., Ltd.

November 2019

Contents

Changes in Business Plan

Circumstances of Current Business Plan

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1. Current Situation

1 Business environment for Super Absorbent Polymers

- Market deterioration due to plant overcapacity
- Lesser performance advantage over competitors because of their upgrading products etc.
- Declining margins in China due to Chinese Yuan depreciation etc.

2 New product development targets

- Delay in market launch for functional chemical products under development
- Forgoing entry into new engineering fields

2. Pressing Management Issues

1 Transforming our business structure

- Rationalizing business operations for Super Absorbent Polymers
- Improving the balance of our business portfolio

2 Strengthening research and development

- Reexamining resources and topics
- Accelerating market launch for products under development
- Expanding technical service functions

Difficult to achieve current plans and targets ▶ **Business plan must be changed**

Changes in Business Plan

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In order to realize the transformation of the business structure in which each of the three business divisions drive growth in the 3 years leading up to 2022, we have formulated new medium-term business plan instead of the current one.

(in units of billion JPY)

Performance Targets	<Made May 2016> SEIKA Grand Design 2025 "URUOI" (2016-2025)	<Made May 2018> Medium-term Business Plan (2018-2020)	Forecast 2019	New Medium-term Business Plan (2020-2022)
	2025	2020	2019	**2022**
Super Absorbent Polymers	100	90	65	**78**
Functional Chemicals	40	20	19	**24**
Gases and Engineering	30	20	16	**18**
Net Sales	170	130	100	**120**
Operating Income	20	13	6	**8** *

*Super Absorbent Polymers: 2.7, Functional Chemicals: 2.8, Gases and Engineering: 2.5

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New Medium-term Business Plan

FY2022 Targets

Net Sales	Operating Income	ROE
120 billion JPY	**8** billion JPY	**8.5%**

Transforming Business Structure

Super Absorbent Polymers
Focusing High value-added products/Promoting streamlining

Functional Chemicals
Prioritized allocation of management resources/Accelerating market launch for products under development

Gases and Engineering
Developing new products for the electronics industry

Strengthening of R&D

Proactive Investment in Development Products

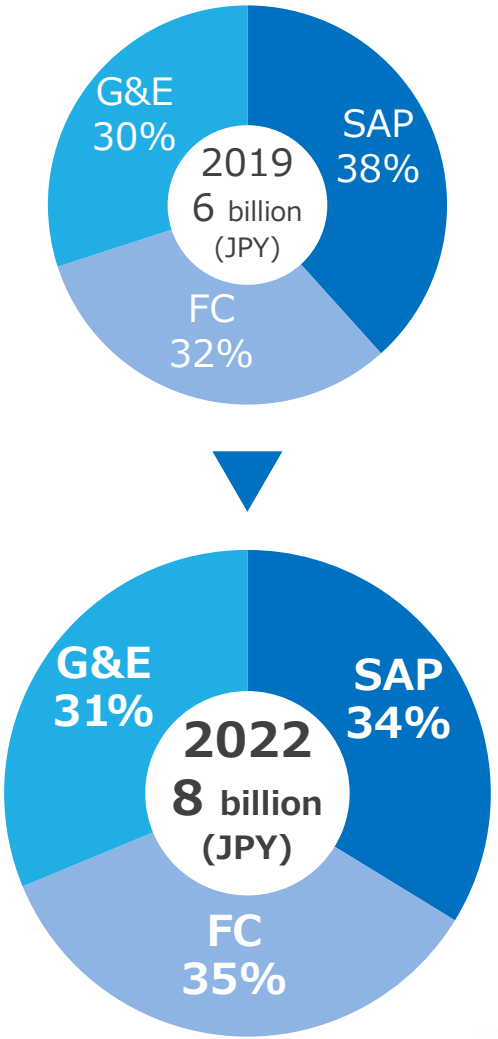
New Medium-term Plan that will lead to Great Progress in FY2023 and beyond

Financial Targets (Net Sales and Operating Income)

(in units of billion JPY)

Division	Forecast 2019	FY2022 Target
Super Absorbent Polymers	65	**78**
Functional Chemicals	19	**24**
Gases and Engineering	16	**18**
Net Sales	100	**120**
Super Absorbent Polymers	2.3	**2.7**
Functional Chemicals	1.9	**2.8**
Gases and Engineering	1.8	**2.5**
Operating Income	6.0	**8.0**
(Based on the following assumptions)		
JPY/CNY	15.3	15.0
JPY/USD	106.8	110.0
Naphtha Price (JPY/kℓ)	41,400	40,000

Operating Income Portfolio



Major Action Plans by Business Division

Super Absorbent Polymers
Market Environment

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Hygiene Products Market

- The market for hygiene products as a whole is expected to grow steadily (global growth rate of about 5%*)
- A high growth rate is expected for **adult diapers** (global growth rate of about 10%*)
- High growth rates expected to continue for emerging markets, particularly in Asia
- Changes in trends, such as increased demand for **thin diapers** in developed countries

Competition in Super Absorbent Polymers

- **Continued overcapacity and falling prices** due to industry-wide facility expansions
- **Sales expansion with low-price** by emerging manufacturers
- **Competitors' upgrading products in China make the market much more commoditized**
- **Realignment** by the vertically-integrated model for acrylic acid/super absorbent polymers

*Company estimates (converted for super absorbent polymers)

Our Strategy

- **Expand sales to customers for baby diapers in emerging countries where we can leverage our strength in SAP sheets and technical services**
- **Focus on markets that allow for differentiation of our business, such as thin diaper and adult diaper markets**

Super Absorbent Polymers

Action Plan

Focus on Creating High Value-Added Products

① Concentrate R&D resources on generating high value-added products

② Develop products to meet our clients' diverse needs

③ Intensify technical marketing operations

Concrete Actions

- Develop new, functional-products with features such as leak prevention, deodorizing ability, and thinner core.
- Develop technologies that lead to reductions in waste and environmental impact for the final consumer goods
- Provide strategic support at local bases for the diverse needs of customers in the Chinese and Asian markets

Strengthen Competitiveness through Fundamental Rationalization of Operations

① Improvement of manufacturing processes

② Restructuring of manufacturing plants

③ Optimization of supply chain

(see next slide)

Super Absorbent Polymers

Topics

Fundamental Rationalization of Operations (target amount 20 JPY/kg or more)

Cost Reduction Project launched in FY2018

Initiatives

Improvement of manufacturing processes

- Strengthen cost competitiveness by introducing high-efficiency machinery
- Apply to overseas sites after verifying results at our Himeji Works

Restructuring of manufacturing plants

- Improve productivity and dramatically reduce fixed costs by suspending use of aging equipment; increase production by eliminating bottlenecks

Optimization of supply chain

- Rationalize the entire supply chain

Schedule

80% has been scheduled.
CAPEX for the purpose of improvements to be decided within the year

Remaining 20%
to be completed by 2022

Functional Chemicals

Action Plan

Energy	Provide additives and high-performance binders that will meet requirements of next-generation vehicle batteries, such as higher capacity, longer life, etc.
Environment	Shifting to aqueous emulsions and powder coatings free of organic solvents because of global environmental consideration
Electronic Materials	Develop new functionality to best satisfy growing market demands around 5G high speed networks, automotive C.A.S.E. solutions, etc.
Personal Care	Re-double efforts to develop product functionality which will fit market needs for cosmetics and thickeners used in toiletries, positioning such growing markets as China, Europe and the US as its main business arenas
Medical Care	Stably provide high-performance products under relevant quality control to global medical regulations

Topics　Developing New Products to Drive Growth

Contributing to Customer Productivity and Quality with

Aliphatic Polycarbonates

We **augmented the pilot plant at our Himeji Works** in order to accelerate the development of new products that address the evolving demands of high-speed 5G networks. At the plant, we are focused on establishing mass production technologies for aliphatic polycarbonates, which are made from CO2 using our own in-house technologies.
Aliphatic polycarbonates feature a unique property of breaking down at relatively low temperatures and are recognized for their contributions to reducing process times and energy requirements.

Achieving a Feel like Never Before

for Smoother Cosmetics

As a new product for personal care applications, our **cosmetic thickener AQUPEC MG**, being used in cosmetic formulations, won the Sensory Award at the in-cosmetics North America and in-cosmetics global Paris exhibitions. The award recognizes a developmental formula that achieves a smooth feel not found in conventional products. The product is already being adopted by cosmetic manufacturers. We plan to continue marketing this product by introducing it at trade shows, etc.

Action Plan

Semiconductor Gases

- Expand sales of high purity C3H6 and high purity CO used in etching and deposition processes for major device manufacturers through strengthening its efforts to grasp the trends of customers and relevant technologies at as early a stage as possible
- Working on early start-up of the manufacturing facility for high purity C3H8 used in SiC power semiconductors and promoting sales expansion of the product
- Unabated endeavor to realize further cost reduction and seize investment opportunities timely

Chemical Gases

- Optimize product mix by securing a stable demand for industrial applications and at the same time winning a new demand from semiconductor applications etc.

Products under Development

- Prioritize "efficiency" by advancing a "selecting and focusing" approach on the businesses of gas products and PSA-related products
- Intensify development initiatives, including through partnerships with other companies especially on materials for next-generation semiconductors

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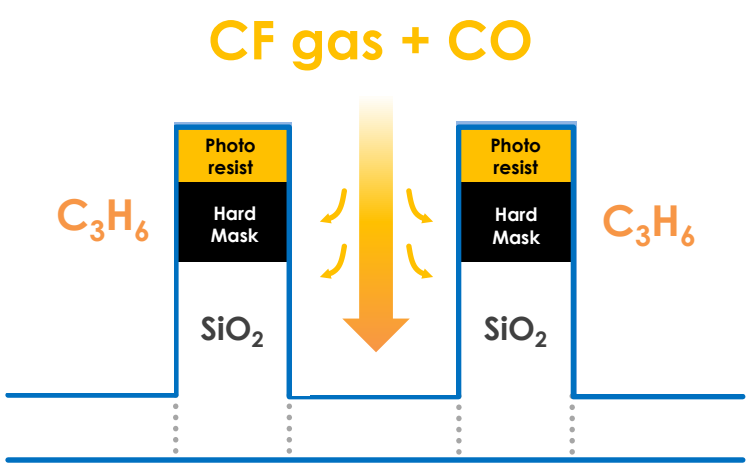
Topics　Developing New Products for the Electronics Industry

High purity CO, C3H6

Overview

Establish a system to boost production capacity for high purity CO and C3H6, special material gases used to manufacture semiconductors. Focusing on semiconductor memory, we will work to ensure a stable supply of high-quality products to meet future growth in demand.

Etching Process Diagram

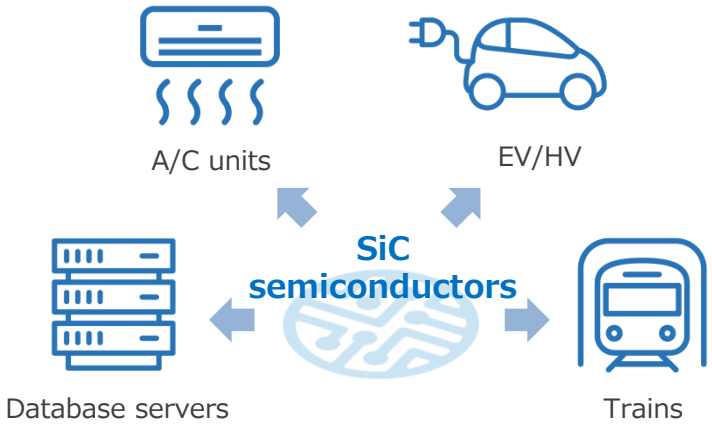


High purity C3H8

Overview

Establish production operations in coordination with the rise of the SiC power semiconductor market, and secure a majority share of the market in response to the growing demand from our clientele of SiC epitaxial wafer manufacturers.

Applications of SiC Power Semiconductors



Strengthening of R&D, and Proactive Investment in Development Products

Strengthening R&D ①
-Reexamining Our R&D System-

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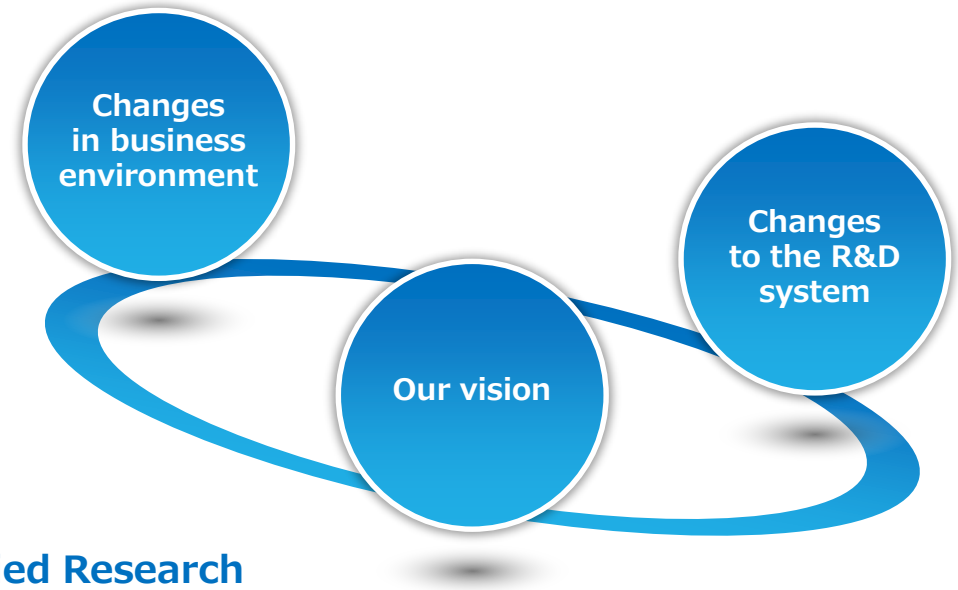
- Super Absorbent Polymers:　Lesser performance advantage over competitors; commoditization
- Functional Chemicals:　Increasing high-level client demands; growing need to reduce environmental impact

➡ Concentrate on speeding up development and differentiating our products



- Reexamining resources and topics as well as changing project management systems
- Reorganization into the Material Development Laboratory and Production and Process Engineering Laboratory

➡ Improve R&D efficiency and accelerate operations

● Basic & Applied Research

Address changes in customer needs and the business environment with our own scientific solutions

● Production and Process Engineering Development

Optimize manufacturing processes for existing products

Accelerate the launch of products under development

● Intellectual Properties

Clearly define R&D targets

Analyze competitors' technology and business, formulate new strategies

Strengthening R&D ②
-Strategies & Initiatives-

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Technology, R&D Strategies

New Product Development

Super Absorbent Polymers

- Continue developing new products that solve common issues of hygiene products such as leakage, odor, and rashes
- Develop new technologies for environmentally friendly products, and processes for reducing costs

Functional Chemicals

- Continue developing new products in the electronics and energy fields
- Apply our water-soluble polymer technologies to the fields of daily goods, medical-related chemicals, adhesives, paints and coatings

Gases and Engineering

- Expand our product lineup of high purity gases for semiconductors and promote the development of new semiconductor processing materials
- Focus on expanding the application of gases using PSA technology

Retaining evaluation technologies

Expand our investment of resources in analysis and evaluation technologies to be equal to or greater than that of our clients, with a focus on batteries, energy, and lifestyle -related goods

Harmonizing strategies of intellectual properties with those of businesses

Set R&D targets based on business and intellectual property strategies, and develop products and technologies to resolve issues early on

Fundamental Cost Reduction

Develop necessary technologies so as to seek cost reduction across the entire value chain

Strengthening R&D ③
-Resource Allocation and New Products Ratio-

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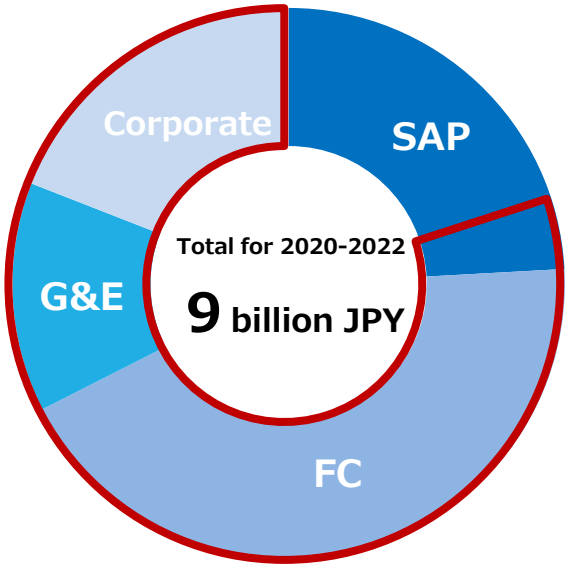
R&D expenses

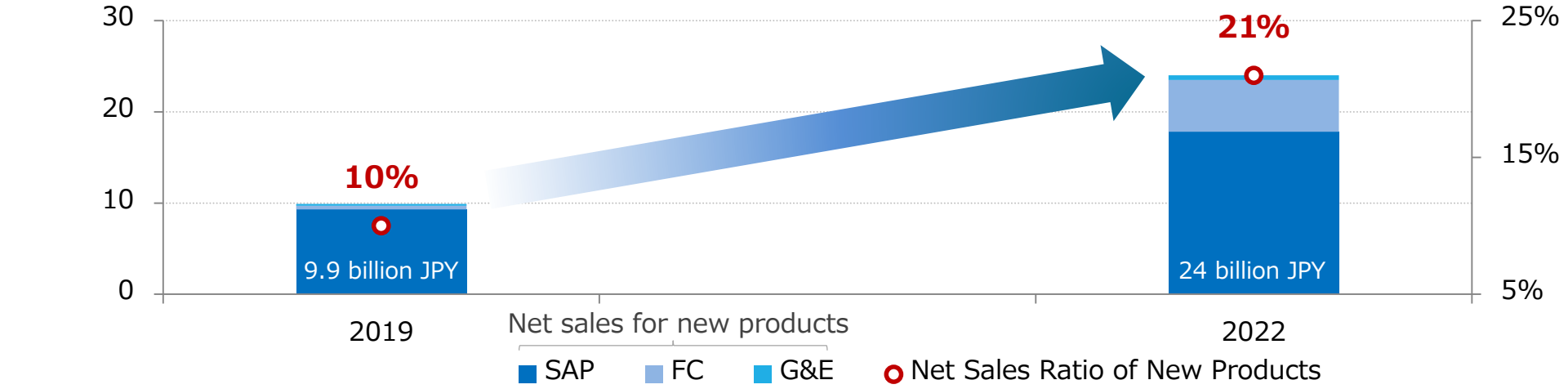


Functional Development accounts for 80% *

(reference) Single FY2019
2.9 billion JPY

＊Including functional development such as deodorizing ability, etc.

Net Sales Ratio of New Products



Definition of new products: Super Absorbent Polymer and Functional Chemical products 5 years after launch or earlier, Gases and Engineering products 10 years after launch or earlier

Investment Plan (Decision-based)

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- Proactive Investment in Development Products with a focus on Functional Chemicals

(in units of billion JPY)

Division	FY2020 to FY2022 (3 years total)	Breakdown (including regular investments)
Super Absorbent Polymers	**4.5**	CAPEX for new products *Streamlining CAPEX of 2 billion JPY to be decided in FY2019
Functional Chemicals	**8.0**	Development products / electronic materials / personal care
Gases and Engineering	**2.0**	High purity gases for semiconductors
Corporate	**2.5**	IT investments etc.
Total Investment	**17.0**	*Operating cash flow: 28.0 (3 years total)

Financial Targets and Working toward Sustainable Growth

Financial Targets
(Net Sales, Operating Income, Net Income, ROE)

Repeat

(in units of billion JPY)

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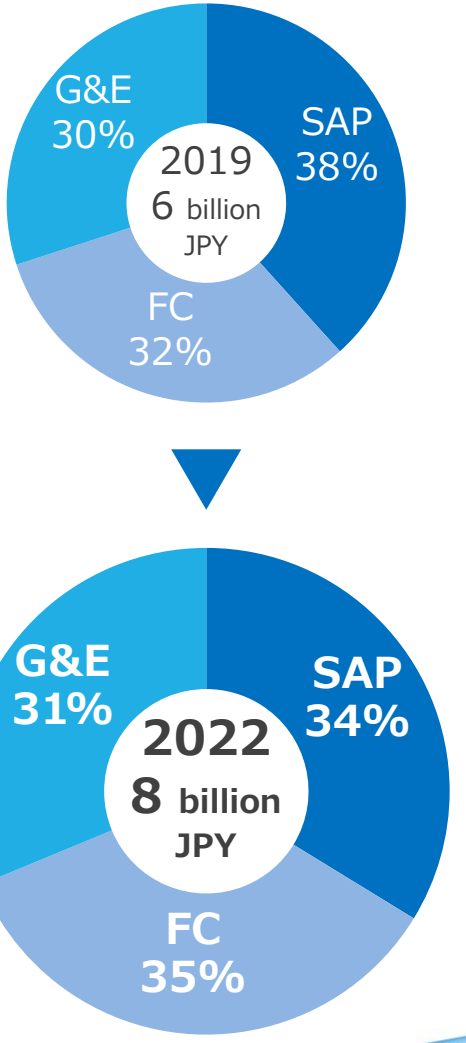
Net Sales	100	**120**
Super Absorbent Polymers	2.3	**2.7**
Functional Chemicals	1.9	**2.8**
Gases and Engineering	1.8	**2.5**
Operating Income	6.0	**8.0**
Net income	3.5	**5.5**
ROE	5.4%	**8.5%**

Operating Income Portfolio



Analysis of Changes in Operating Income

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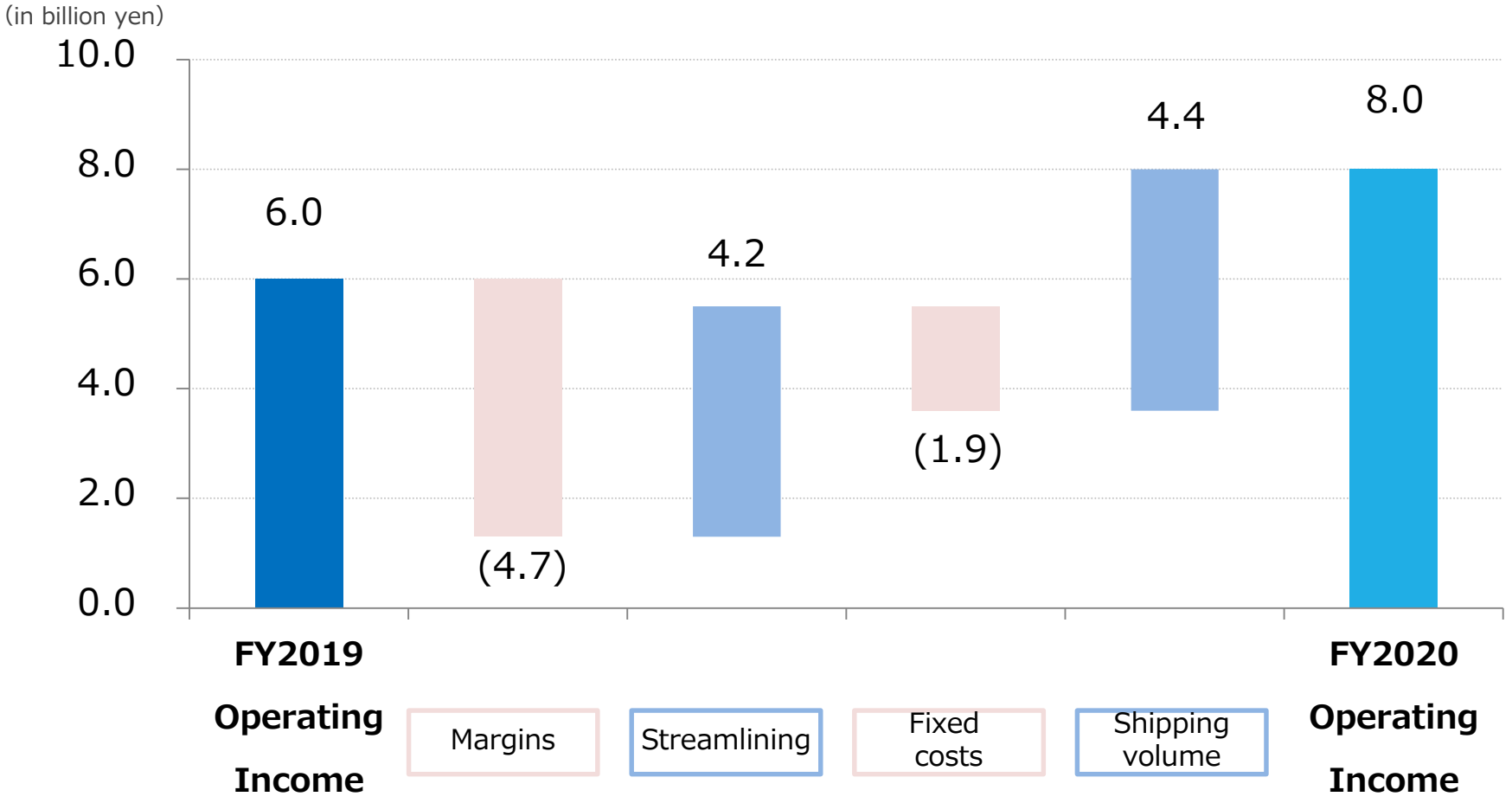
Forecast 2019, 6 billion JPY → **Target for FY 2022, 8 billion JPY**



Financial Indicators

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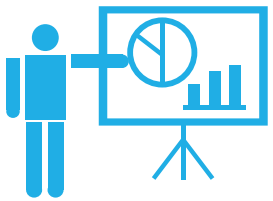
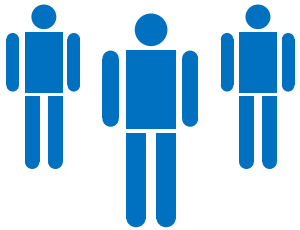
3 years total operating income
2020-2022
20 billion JPY

Dividend payout ratio
Approx. 30%
over 100 JPY/share



Business Growth



Increase Shareholder Value

3 years total capital investment
2020-2022
17 billion JPY

3 years total R&D expenses
2020-2022
9 billion JPY

ROE
2022
8.5%

Positioning Our New Medium-term Business Plan

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Transitioning to a Sustainable Business Structure toward Great Progress in FY2023 and beyond

Performance targets for FY2025 will be announced in next Medium-Term Business Plan, reflecting changes in the business environment, the progress of new product development, etc.

Towards Growth in FY2023 and Beyond

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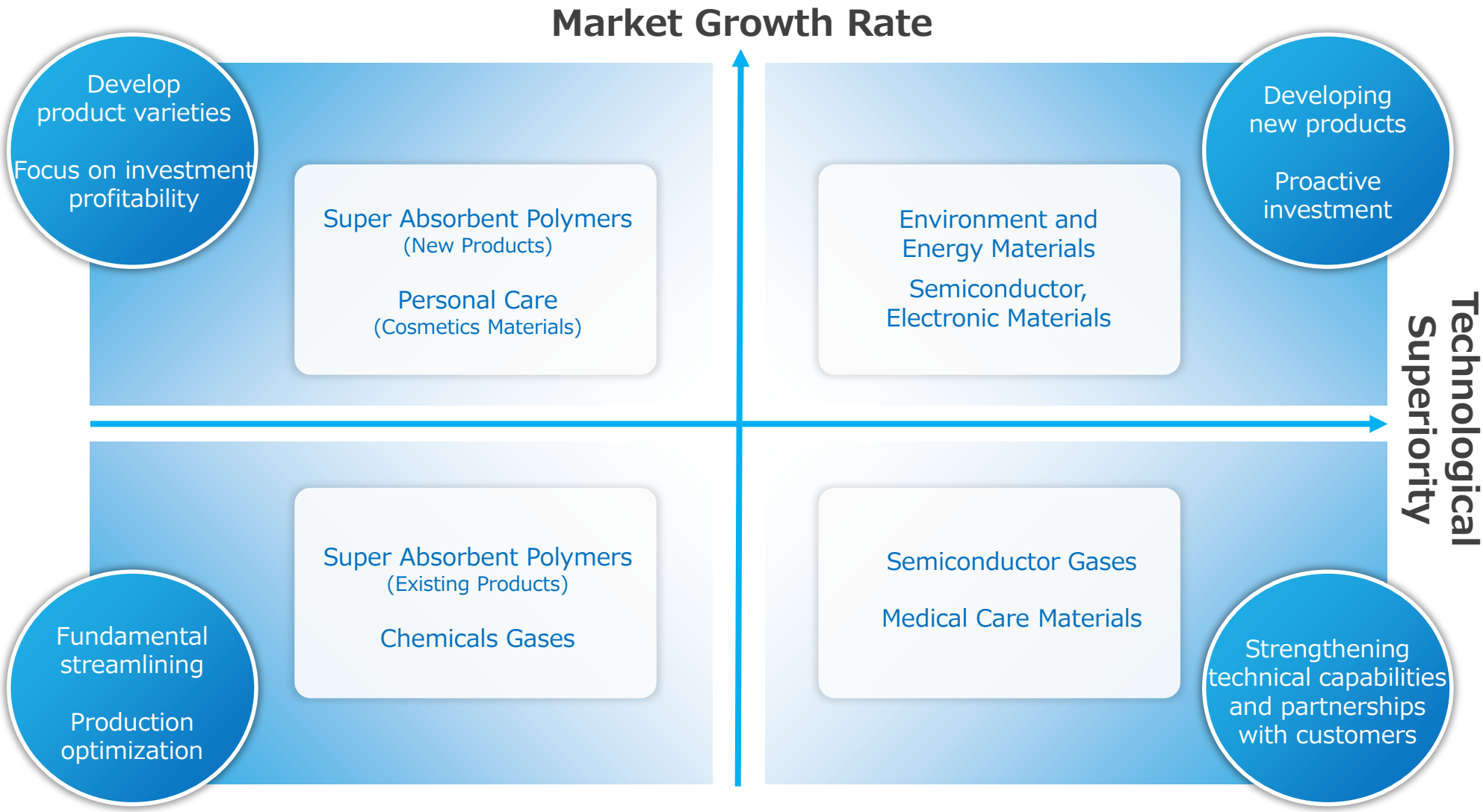

Commitment to strengthening competitiveness and product features

CSR Goals for the Sumitomo Seika Group (Enacted November 6, 2018)

The Sumitomo Seika Group has enacted a set of company-wide CSR goals. Our corporate group has committed to implementing various CSR initiatives, in order to contribute to the development of a sustainable society while tackling the shared global issues presented in the UN's Sustainable Development Goals.
“The Sumitomo Seika Group will tackle on the Sustainable Development Goals (SDGs), globally-shared challenges, by creating value that we alone can offer through translating our corporate philosophy into practice, thereby contributing ultimately to the development of a sustainable society. With these initiatives, we will aim to meet expectations of all our stakeholders.”

Sumitomo Seika Group Basic CSR Policy (Enacted November 6, 2018)

The Sumitomo Seika Group will engage in CSR activities according to the following policy.

1. We will provide products that will help make people’s lives more comfortable, satisfy customer needs with product functionality, and supply superior products and services that will support the foundation of the industries that the Sumitomo Seika Group serves, thereby contributing to solving societal problems and developing a sustainable society.
2. We, as a chemical manufacturer, will give the highest priority to ensuring "zero accidents and zero injuries" and will strive to achieve and maintain safe and stable plant operation as well as safe shipment and delivery of products.
3. We will appropriately assess possible influences of our products and production processes on humans and the environment and take measures to ensure safety and environmental stewardship.
4. We will ensure thoroughly conducting quality management of our products and services so that our customers can use them to their satisfaction and with confidence.
5. We will provide a safe and healthy working environment to our employees and also develop a corporate culture that allows our employees to work with pride and a sense of fulfilment.
6. We, as a responsible corporate citizen, will participate in society, aiming to realize co-existence and co-prosperity with society.

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Target for Reducing Greenhouse Gas Emissions

1. Medium-term Targets

   We are working to achieve a 7% reduction by FY2021 and a 11% reduction by FY2022 in CO2 emissions as compared to FY2013.
   This is in keeping with the Japan Chemical Industry Association's low-carbon society action plan, which seeks to reduce FY2030 CO2 emissions by 10.7% compared to FY2013 amounts.

2. Long-term Targets

   Promote further efforts toward the Paris Accord's target of reducing CO2 emissions in FY2030 by 26% compared to FY2013 amounts.

Initiatives to Reduce Environmental Impact

In order to reduce environmental impact resulting from business operations, we will:

1. Promote the development of technology that contributes to reducing waste (including from plastics) in final consumer goods made using our products.
2. Continue efforts to reduce the amount of waste emissions from production processes.

Corporate Philosophy and Corporate Statement

URUOI
Worldwide!

Corporate Philosophy

Following the Sumitomo Business Spirit, the Sumitomo Seika Group will contribute to the advancement of society by developing world-class creative technologies in the field of chemistry and, based thereon, supplying unique, high quality products to people around the world.

Corporate Statement

Sumitomo Seika Group will strive to provide "URUOI," a Japanese word meaning richness in quality, to Mother Nature and people's lives through products and services we supply as we ourselves continue to grow, anticipating changes likely to come about in society and thereby creating products of wonder with unique ideas and flexible thinking.

Disclaimer

This material is intended to provide information as a reference for making investment decisions and is not intended to solicit investment.

The content included is based on the company's assessments at the time of preparing these materials and is not a guarantee of the implementation of the measures and targets described.

Please note that the information in this document is subject to change without notice.

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